

Message Text

CONFIDENTIAL

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44

ACTION SS-25

INFO OCT-01 ADP-00 /026 W

----- 042302

R 101534Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6193

C O N F I D E N T I A L SECTION 01 OF 02 BONN 09814

EXDIS

DEPARTMENT PASS FEDERAL RESERVE AND TREASURY FOR
UNDER SECRETARY VOLCKER AND L. WIDMAN

E.O. 11652: XGDS-L

TAGS: EFIN, GW

SUBJECT: CONVERSATION WITH FINANCE MINISTRY
STATE SECRETARY POEHL

1. SUMMARY: STATE SECRETARY POEHL IN A CONVERSATION WITH ME TODAY INDICATED THAT THE GERMANS, POSSIBLY IN A JOINT APPROACH WITH THE FRENCH, MAY CALL ON THE US AT THE TIME OF THE JULY 30 C-20 MINISTERS MEETING FOR ADDITIONAL STEPS TO STRENGTHEN THE DOLLAR. POEHL WAS REASONABLY OPTIMISTIC THAT THE LIMITED INTERVENTION ON THE FOREIGN EXCHANGE MARKETS WOULD BE SUCCESSFUL, BUT DID NOT RULE OUT THE POSSIBILITY OF LARGE SCALE FLOWS WHICH WOULD PLACE THE FRG BEFORE THE POLICY CONFLICT BETWEEN THE REQUIREMENTS FOR INTERNATIONAL FINANCIAL STABILITY AND THOSE OF ITS INTERNAL STABILIZATION PROGRAM. POEHL STRESSED THE POLITICAL REPERCUSSIONS OF CONTINUED INTERNATIONAL MONETARY CHAOS BROUGHT ON BY CONTINUED WEAKNESS OF THE DOLLAR. POEHL INDICATED THAT SHOULD NEW STRAINS APPEAR IN THE EC SNAKE, ANOTHER SMALL REVALUATION OF THE DM MIGHT BE CONCEIVABLE. A UNILATERAL DM FLOAT WOULD BE OUT OF THE QUESTION, IN HIS VIEW, AND HE WOULD ARGUE STRONGLY AGAINST IT. END

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SUMMARY

2. IN MINISTER SCHMIDT'S ABSENCE I CALLED ON FINANCE MINISTRY STATE SECRETARY POEHL TODAY FOR AN EXCHANGE OF VIEWS ON THE INTERNATIONAL MONETARY SITUATION. POEHL SAID THAT HE WAS CONVINCED THAT THE DOLLAR WAS NOW CLEARLY UNDERVALUED AND RELATIVELY OPTIMISTIC THAT THE MARKETS WOULD SOON RECOGNIZE THIS FACT. HE, THEREFORE, ALSO WAS RELATIVELY OPTIMISTIC THAT THE INTERVENTIONS NOW TAKING PLACE ON BOTH SIDES OF THE ATLANTIC COULD BE KEPT TO AMOUNTS WHICH WHILE INFLUENCING THE EXCHANGE MARKETS WERE NOT SO LARGE AS TO EXPAND THE DOMESTIC MONEY SUPPLY IN GERMANY TO SUCH AN EXTENT AS TO CALL INTO QUESTION THE SUCCESS OF THE GERMAN STABILIZATION PROGRAM. POEHL CONTINUED THAT, OF COURSE, IT WAS NOT POSSIBLE TO COMPLETELY RULE OUT SO LARGE A PRESSURE ON THE DOLLAR (PARTICULARLY IF IT CAME FROM AMERICANS THEMSELVES WHO WANTED TO GET OUT OF THE DOLLAR NO MATTER WHAT THE COST) THAT EXCHANGE RATES WOULD SINK DRASTICALLY IN THE ABSENCE OF REALLY MASSIVE INTERVENTION. IN SUCH A CASE GERMANY WOULD BE FACED WITH THE DILEMA OF EITHER GIVING UP ON ITS DOMESTIC STABILIZATION PROGRAM OR SEEING COMPLETE CHAOS ON THE INTERNATIONAL MONETARY FRONT. OPINION WAS DIVIDED AMONG GERMAN POLICY MAKERS WHAT TO DO IN SUCH A SITUATION BUT, HE, POEHL WOULD RELUCTANTLY OPT FOR MASSIVE INTERVENTION AT THE COST OF THE DOMESTIC STABILIZATION PROGRAM.

3. POEHL STRESSED THE POLITICAL REPERCUSSIONS THAT CONTINUED INTERNATIONAL MONETARY CHAOS GENERALLY ATTRIBUTED TO THE WEAKNESS OF THE DOLLAR COULD HAVE IN EUROPE AND GERMANY. THERE WERE ALREADY SOME NASTY UNDERTONES OF ANTI-AMERICANISM AS A RESULT OF THE FEELING THAT THE US WAS UNWILLING TO BRING ITS OWN HOUSE IN ORDER OR ITSELF DO SOMETHING TO STABILIZE THE VALUE OF ITS CURRENCY. WHILE THESE VIEWS WERE LARGELY IRRATIONAL, THEY NEVERTHELESS WERE A POLITICAL REALITY AND THIS ANTI-AMERICANISM WOULD GROW UNLESS SOME ORDER COULD BE RESTORED TO

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THE INTERNATIONAL MONETARY SCENE. POEHL INDICATED THAT THE FRG WAS CONSIDERING MAKING SOME APPROACH

XGDS-1
HILLENBRAND

NOTE BY OC/T: NOT PASSED FRB AND TRSE.

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ACTION SS-25

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R 101600Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6194

C O N F I D E N T I A L SECTION 02 OF 02 BONN 09814

EXDIS

TO THE US AT THE TIME OF THE C-20 MINISTERS MEETING
IN WASHINGTON AT THE END OF JULY FOR MORE EFFECTIVE
US ACTION TO STRENGTHEN THE DOLLAR. POEHL INDICATED
THAT IT WAS TOO EARLY FOR HIM TO ANNOUNCE SUCH AN
APPROACH TONU OSEJXUIHDNODID WANT TO GIVE US SOME FORE-
WARNING THAT IT WAS VERY LIKELY TO COME. IT HAD NOT
YET BEEN DECIDED WHETHER IT WOULD BE A JOINT FRENCH/
GERMAN APPROACH OR A GERMAN APPROACH, BUT PRESSURE
ON GERMANY FROM FRANCE DID PLAY A ROLE. POEHL ALSO
WAS VAGUE AS TO JUST WHAT THE FRG WOULD BE
REQUESTING. HE SAID THE FRG FELT THAT IN THE
CURRENT SITUATION AND PARTICULARLY BECAUSE OF THE
POSSIBLE POLITICAL REPERCUSSIONS, THE US SHOULD
GIVE BALANCE OF PAYMENTS CONSIDERATIONS AN
INCREASED WEIGHT IN ITS OVERALL ECONOMIC POLICIES.
HE MENTIONED HIGHER INTEREST RATES, ALTHOUGH CON-
CEEDING THAT US INTEREST RATES HAD MOVED UP AND NOW
WERE AT HISTORICALLY RECORD RATES. HE ALSO
MENTIONED THE POSSIBILITY OF A US LOAN ON THE
EURO-DOLLAR MARKET OR US GOLD SALES, ALTHOUGH
CONCEEDING THAT THE EFFECT TO BE HOPED FROM THESE
WAS LARGELY PSYCHOLOGICAL AND NOT FULLY PREDICTABLE.
HE GAVE THE IMPRESSION THAT THE GERMAN SIDE, WHILE
POSSIBLY HAVING MADE A POLITICAL DECISION (OR
COMMITMENT TO GISCARD) FOR SOME APPROACH TO THE US,
HAD NOT YET COME TO GRIPS WITH JUST WHAT IT WANTED
TO REQUEST OR SUGGEST TO THE US. WE AGREED TO MEET
AGAIN IN ABOUT L4 DAYS FOR ANOTHER EXCHANGE OF VIEWS
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PRIOR TO MINISTER SCHMIDT'S TRIP TO THE C-20.

4. POEHL SAID THAT IN RETROSPECT HE WAS MOST HAPPY WITH THE OPERATION OF THE EC SNAKE. HE FELT THAT WITHOUT IT THE PRESSURE ON THE DM AND THE DOLLAR WOULD HAVE BEEN EVEN GREATER. AS TO THE FUTURE, HE COULD SAY VERY CATEGORICALLY THAT GERMANY WOULD REMAIN WITHIN THE SNAKE AND THAT A UNILATERAL DM FLOAT WAS COMPLETELY OUT OF THE QUESTION. WHILE ONE RECENTLY QUITE OFTEN HEARD OPINIONS TO THE CONTRARY, THERE WERE ONLY A FEW PERSONS WHO MATTERED IN MAKING A DECISION OF THIS SORT AND HE, POEHL, WAS SURE THAT THEY WOULD NOT AGREE TO A UNILATERAL FLOAT UNDER ANY CIRCUMSTANCES. POEHL CONCEDED THAT GERMAN TIGHT MONEY POLICIES AND SOME SIGNS OF SUCCESS OF THE STABILIZATION PROGRAM WERE VERY LIKELY TO PUSH THE DM AGAIN TO THE UPPER BORDER OF THE SNAKE. HE INDICATED, HOWEVER, THAT IT WAS THE FRG'S HOPE THAT THIS WOULD NOT HAPPEN UNTIL THE STABILIZATION PROGRAM WAS BEGINNING TO HAVE SOME SUCCESS. IT THEN MIGHT WELL FIT INTO THE FRG'S POLICY TO TAKE UP SOME OTHER EUROPEAN CURRENCIES IN THE OPERATION OF THE SNAKE. THIS WOULD ALLOW IT TO BEGIN TO RELAX INTERNAL ECONOMIC POLICY (THROUGH AN INCREASE IN THE VOLUME OF MONEY) WITHOUT OVERT POLITICAL DECISIONS TO THIS EFFECT. IT ALSO WOULD BRING SOME PRESSURE (THROUGH LOSS OF EXCHANGE RESERVES) ON GERMANY'S EC PARTNERS FOR MORE STABILITY ORIENTED POLICIES. IN RESPONSE TO A QUESTION AS TO WHAT THE FRG WOULD DO IF THE DM SHOULD BEGIN TO PULL IN SIZEABLE AMOUNTS OF OTHER SNAKE CURRENCIES PRIOR TO SUCCESS OF THE FRG'S STABILIZATION PROGRAM, POEHL SAID THAT IN THAT CASE ANOTHER SMALL DM REVALUATION VIS A VIS THE OTHER SNAKE CURRENCIES COULD BE CONSIDERED. IN ANY CASE, THE ONE THING THAT WOULD BE OUT OF THE QUESTION WOULD BE A BREAK-AWAY OF THE DM FROM THE SNAKE IN ORDER TO FLOAT UNILATERALLY. I COMMENTED THAT I HAD NOT GAINED THE IMPRESSION IN TALKING TO HIS MINISTER THAT SCHMIDT WOULD BE READY TO REVALUE THE DM ONCE MORE EVEN UNDER SUCH CIRCUMSTANCES (SEE PARA 6 OF BONN 9594). POEHL SAID THAT IT WOULD

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THEN BE UP TO HIM TO PERSUADE HIS MINISTER IF THESE CIRCUMSTANCES SHOULD ARISE. HE ADDED THAT SO FAR SCHMIDT HAD IN THE END ALWAYS FOLLOWED HIS ADVICE ON SUCH QUESTIONS AND STRESSED THAT HE

WAS TALKING ONLY IN TERMS OF A SMALL REVALUATION A-
GAINST THE OTHER SNAKE CURRENCIES, NOT IN TERMS OF
A LARGE REVALUATION OR ONE AGAINST THE DOLLAR.
HILLENBRAND

NOTE BY OC/T: NOT PASSED FRB AND TRSE.

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